

E-002/MR-89-656APPROVING NEW ACCOUNTING METHOD AND SETTING REFUND
AMOUNT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of Northern States Power
Company's Petition to Refund Amounts Over-
collected Due to Power Plant Spare Parts
Accounting Methods

ISSUE DATE: October 31, 1989

DOCKET NO. E-002/MR-89-656

ORDER APPROVING NEW ACCOUNTING
METHOD AND SETTING REFUND
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PROCEDURAL HISTORY

On February 24, 1989 Northern States Power Company (NSP or the Company) filed notification with the Commission that the Company was undertaking a review of its accounting treatment of spare parts. On August 4, 1989 the Company filed a proposal to change its accounting procedure for spare parts from an expense treatment to an inventory treatment. The Company also proposed to make a refund of the difference between its revenue requirement under the old method and its revenue requirement under the new method, computed annually, for the past ten years. The refund would include interest on over-collected sums at the prime rate and would total approximately \$12,011,294.

The Department of Public Service (the Department) examined the Company's proposal and recommended accepting it.

Commission staff advised that an alternative to the Company's proposal would be to require the refund of all monies over-collected, with no offset for amounts which would have been collected had the Company been using its new inventory method all along. A refund under this method would total \$19,895,403.

The Residential Utilities Division of the Office of the Attorney General (RUD-OAG) recommended adoption of the alternative identified by staff.

The matter came before the Commission on October 3, 1989.

FINDINGS AND CONCLUSIONS

The Commission agrees with all parties that the new spare parts accounting method proposed by the Company is more appropriate under basic accounting principles and should be approved. The Commission will so order.

The Commission will adopt the alternative refund method identified by staff and supported by the RUD-OAG. Although all refund methodologies have drawbacks, the Commission believes that the alternative method provides a greater measure of precision and fairness than the Company's proposal.

The Company's proposal attempts to place ratepayers in the same position they would occupy if the Company had used its new accounting method all along. It bases the refund on the difference between estimated annual revenue requirements using the old method of accounting and estimated annual revenue requirements using the new method. Since it adjusts the two revenue requirements annually, however, and since NSP did not file rate cases annually during the ten-year period, the resulting refund amount is very imprecise.

Clearly, spare parts costs were not the only components of the revenue requirement which changed from one year to the next during the ten-year period. Without the benefit of actual annual rate cases, the annual refund amounts computed by the Company constitute only crude estimates of the amounts over-collected from ratepayers. The alternative refund methodology therefore offers greater precision than the method proposed by the Company.

The alternative method also has advantages over the Company method in terms of basic fairness. The Company method assumes spare parts costs were in rate base throughout the ten-year period and imputes an appropriate return on that investment to shareholders. Actually, of course, shareholders made no investment in spare parts. Rather, the funds were provided by ratepayers under the previous accounting method, which allowed the immediate expensing of spare parts purchases. Spare parts were acquired solely with ratepayers' funds. It is therefore more straightforward and equitable to refund to the ratepayers all amounts collected for spare parts on hand as of January 1, 1989, the proposed implementation date for the new procedure. The Commission will so order.

ORDER

1. The Company's proposal to change its accounting treatment of spare parts from an expense treatment to an inventory treatment is approved.
2. The Company shall refund to ratepayers all amounts collected for spare parts on hand as of January 1, 1989.
3. The Company shall submit to Commission staff for prior approval a notice explaining the refund to affected customers.
4. Within 30 days of completion of the refund the Company shall file a report detailing all amounts refunded to Minnesota customers by customer class.
5. Within 30 days of completion of each spare parts refund in any other jurisdiction, the Company shall file a report detailing the amounts refunded by jurisdiction.
6. Within 30 days of the date of this Order, the Company shall file its calculations of future revenue requirements reflecting the refunds and reflecting updated recording of inventory, materials and supplies, capitalized spare parts, depreciation, and deferred taxes.
7. Within 30 days of final action by the Internal Revenue Service on the Company's proposal to change its spare parts accounting method, the Company shall file a report on the action of that agency.
8. In the future, the Company shall promptly report to the Commission any changes in its spare parts accounting policies or procedures.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)